

Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

WAUSAU MOSINEE PAPER CORP  
Form 10-Q  
August 09, 2004

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-13923

WAUSAU-MOSINEE PAPER CORPORATION  
(Exact name of registrant as specified in charter)

WISCONSIN 39-0690900  
(State of incorporation) (I.R.S. Employer Identification  
Number)

1244 KRONENWETTER DRIVE  
MOSINEE, WISCONSIN 54455-9099  
(Address of principal executive office)

Registrant's telephone number, including area code: 715-693-4470

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of common shares outstanding at July 30, 2004 was 51,685,251.

WAUSAU-MOSINEE PAPER CORPORATION

AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

Page No.

Item 1. Financial Statements

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

	Condensed Consolidated Statements of Operations, Three Months and Six Months Ended June 30, 2004 (unaudited) and June 30, 2003 (unaudited)	1
	Condensed Consolidated Balance Sheets, June 30, 2004 (unaudited) and December 31, 2003 (derived from audited financial statements)	2
	Condensed Consolidated Statements of Cash Flows, Six Months Ended June 30, 2004 (unaudited) and June 30, 2003 (unaudited)	3
	Notes to Condensed Consolidated Financial Statements (unaudited)	3-9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10-17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	17
Item 4.	Controls and Procedures	17
 PART II. OTHER INFORMATION		
Item 4.	Submission of Matters to a Vote of Security Holders	18
Item 6.	Exhibits and Reports on Form 8-K	18

i

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

Wausau-Mosinee Paper Corporation and Subsidiaries  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months June 30,
(Dollars in thousands, except per share data)	2004	2003	2004
NET SALES	\$264,109	\$ 242,833	\$515,924
Cost of products sold	235,973	217,737	461,090
GROSS PROFIT	28,136	25,096	54,834
Selling and administrative expenses	19,754	17,419	38,638
OPERATING PROFIT	8,382	7,677	16,196
Interest expense	(2,550)	(2,570)	(5,077)
Other income (expense), net	98	15	292
EARNINGS BEFORE INCOME TAXES	5,930	5,122	11,411
Provision for income taxes	2,193	1,894	4,222

Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

NET EARNINGS	\$ 3,737	\$ 3,228	\$ 7,189
NET EARNINGS PER SHARE-BASIC	\$ 0.07	\$ 0.06	\$ 0.14
NET EARNINGS PER SHARE-DILUTED	\$ 0.07	\$ 0.06	\$ 0.14
Weighted average shares outstanding-basic	51,663,152	51,550,078	51,640,274
Weighted average shares outstanding-diluted	51,929,290	51,650,691	51,867,042
Dividends declared per common share	\$ 0.17	\$ 0.17	\$ 0.17

See Notes to Condensed Consolidated Financial Statements.

1

Wausau-Mosinee Paper Corporation and Subsidiaries  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	JUNE 30, 2004	December 31, 2003
ASSETS	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	\$ 59,382	\$ 36,305
Receivables, net	99,687	81,300
Refundable income taxes	1,842	1,668
Inventories	109,336	115,835
Deferred income taxes	12,573	12,616
Other current assets	3,118	3,694
Total current assets	285,938	251,418
Property, plant and equipment, net	548,218	565,722
Other assets	41,363	40,960
TOTAL ASSETS	\$875,519	\$858,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 113	\$ 112
Accounts payable	69,623	55,368
Accrued and other liabilities	63,563	59,524
Total current liabilities	133,299	115,004
Long-term debt	161,754	162,174
Deferred income taxes	114,920	115,879
Postretirement benefits	57,225	54,197
Pension	36,523	40,829
Other noncurrent liabilities	21,590	19,701
Total liabilities	525,311	507,784
Stockholders' equity	350,208	350,316
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$875,519	\$858,100

See Notes to Condensed Consolidated Financial Statements.

2

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

Wausau-Mosinee Paper Corporation and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Six Months Ended June 30,	
	2004	2003
Net cash provided by operating activities	\$40,085	\$27,965
Cash provided by (used in) investing activities:		
Capital expenditures	(9,471)	(9,975)
Acquisition of business	0	(8,413)
Proceeds of sale of property, plant and equipment	12	6
	(9,459)	(18,382)
Cash provided by (used in) financing activities:		
Payments under capital lease obligation	(55)	(34)
Dividends paid	(8,773)	(8,763)
Proceeds from stock option exercise	1,279	135
	(7,549)	(8,662)
Net increase in cash and cash equivalents	23,077	921
Cash and cash equivalents, beginning of period	36,305	23,383
Cash and cash equivalents, end of period	\$59,382	\$24,304
Interest-net of amount capitalized	\$ 5,330	\$ 5,282
Income taxes paid	3,597	3,578

Noncash investing and financing activities: A capital lease obligation of \$336 was recorded in the second quarter of 2003 when the Company entered into a lease for new equipment.

See Notes to Condensed Consolidated Financial Statements.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The condensed consolidated financial statements include the results of Wausau-Mosinee Paper Corporation and consolidated subsidiaries. All significant intercompany transactions have been eliminated. The accompanying condensed financial statements, in the opinion of management, reflect all adjustments which are normal and recurring in nature and which are necessary for a fair statement of the results for the periods presented. Results for the interim period are not necessarily indicative of future results. In all regards, the financial statements have been presented in accordance with accounting principles generally accepted in the United States of America. Refer to notes to the financial statements which appear in the Annual Report on Form 10-K

3

for the year ended December 31, 2003, for the Company's accounting policies which are pertinent to these statements.

Note 2. During the second quarter of 2003, the Company's Towel & Tissue Group, reached a settlement of all claims of the parties in the patent litigation. As a result of the settlement, the Company recognized \$4.2 million in pre-tax income (reduction of cost of sales) as a fee for licensing certain patented dispenser technologies.

Note 3. Effective March 3, 2003, the Company acquired certain assets of a laminated papers producer for approximately \$8.5 million in cash. The acquisition was accounted for as a purchase business combination and, accordingly, the purchase price has been allocated using the fair values of the acquired receivables, inventory, machinery and equipment, and

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

identifiable intangible assets. No goodwill was recorded as a result of this acquisition. The pro forma disclosures required under Statement of Financial Accounting Standard (SFAS) No. 141 "Business Combinations" have not been presented as the impact of this acquisition does not materially impact the results of operations.

Note 4. Net earnings include provisions, or credits, for stock incentive plans calculated by using the average price of the Company's stock at the close of each calendar quarter as if all such plans had been exercised on that day. For the three months ended June 30, 2004, the provision for incentive plans was \$2.0 million. For the three months ended June 30, 2003, the provision for incentive plans was \$0.7 million. For the six months ended June 30, 2004 and 2003, provisions of \$2.2 million and \$0.4 million, respectively, were recognized as stock incentive plan expense.

As permitted under SFAS No. 123, the Company continues to measure compensation cost for stock-option plans using the "intrinsic value based method" prescribed under APB No. 25, "Accounting for Stock Issued to Employees."

4

Pro forma net earnings and earnings per share had the Company elected to adopt the fair-value based method" of SFAS No. 123, "Accounting for Stock-Based Compensation," are as follows:

(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net earnings, as reported	\$ 3,737	\$ 3,228	\$ 7,189	\$ 4,563
Add: Total stock-based employee compensation expense (credit) under APB No. 25, net of related tax effects	1,269	419	1,365	261
Deduct: Total stock-based compensation (expense) credit determined under fair-value based method for all awards, net of related tax effects	( 1,345)	(460)	(1,485)	(327)
Proforma	\$ 3,661	\$ 3,187	\$ 7,069	\$ 4,497
 Earnings per share - basic:				
As reported	\$ 0.07	\$ 0.06	\$ 0.14	\$ 0.09
Pro forma	\$ 0.07	\$ 0.06	\$ 0.14	\$ 0.09
 Earnings per share - diluted:				
As reported	\$ 0.07	\$ 0.06	\$ 0.14	\$ 0.09
Pro forma	\$ 0.07	\$ 0.06	\$ 0.14	\$ 0.09

5

Note 5. Basic and diluted earnings per share are recognized as follows:

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003

Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

Net earnings	\$	3,737	\$	3,228	\$	7,189	\$	4,563
Basic weighted average common shares outstanding		51,663,152		51,550,078		51,640,274		51,543,521
Dilutive securities:								
Stock options		266,138		100,613		226,768		84,010
Dilutive weighted average common shares outstanding		51,929,290		51,650,691		51,867,042		51,627,531
Net earnings per share-basic	\$	0.07	\$	0.06	\$	0.14	\$	0.09
Net earnings per share-diluted	\$	0.07	\$	0.06	\$	0.14	\$	0.09

For the three months ended June 30, 2004, options for 432,911 shares were excluded from the diluted EPS calculation because the options were antidilutive. For the three months ended June 30, 2003, options for 757,255 shares were excluded from the diluted EPS calculation because the options were antidilutive. For the six months ended June 30, 2004 and 2003, 449,140 shares and 819,255 shares, respectively, were excluded from the diluted EPS calculation because the options were antidilutive.

Note 6. Accounts receivable consisted of the following:

(Dollars in thousands)	JUNE 30, December 31,	
	2004	2003
Trade	\$100,026	\$82,142
Other	1,764	1,086
	101,790	83,228
Less: Allowances	(2,103)	(1,928)
	\$99,687	\$81,300

6

Note 7. The various components of inventories were as follows:

(Dollars in thousands)	JUNE 30, December 31,	
	2004	2003
Raw Materials	\$ 30,226	\$ 27,282
Finished Goods and Work in Process	76,921	83,757
Supplies	28,002	27,920
Subtotal	135,149	138,959
Less: LIFO Reserve	(25,813)	(23,124)
Net inventories	\$109,336	\$115,835

Note 8. The accumulated depreciation on fixed assets was \$670.4 million as of June 30, 2004 and \$653.0 million as of December 31, 2003. The provision for depreciation, amortization and depletion for the six months ended June 30, 2004 and June 30, 2003 was \$30.0 million and \$30.6 million, respectively.

Note 9. The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the three months ended June 30, 2004 and 2003, are as follows:

(Dollars in thousands)	Pension Benefits	Other Post-retirement Benefits
------------------------	------------------	--------------------------------

Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

	2004	2003	2004	2003
Service cost	\$ 1,720	\$ 1,379	\$ 671	\$ 504
Interest cost	2,423	2,329	1,505	1,481
Expected return on plan assets	(2,504)	(2,056)	0	0
Amortization of:				
Prior service cost	488	485	(87)	(89)
Actuarial loss	420	187	447	225
Transition (asset)	(12)	(47)	0	0
Settlement	0	248	0	0
Net periodic benefit cost	\$ 2,535	\$ 2,525	\$ 2,536	\$ 2,121

7

The components of net periodic benefit costs recognized in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2004 and 2003, are as follows:

(Dollars in thousands)	Pension Benefits		Other Post-retirement Benefits	
	2004	2003	2004	2003
Service cost	\$ 3,440	\$ 2,758	\$ 1,342	\$ 1,008
Interest cost	4,846	4,658	3,046	2,643
Expected return on plan assets	(5,005)	(4,116)	0	0
Amortization of:				
Prior service cost	975	970	(174)	(178)
Actuarial loss	839	374	894	450
Transition (asset)	(26)	(94)	0	0
Settlement	0	248	0	0
Net periodic benefit cost	\$ 5,069	\$ 4,798	\$ 5,108	\$ 3,923

On December 8, 2003, the President signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that override a benefit that is at least actuarially equivalent to Medicare. In June 2004, the FASB issued FSP 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The FSP provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. The FSP also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act. The FSP is not effective until the first interim or annual period beginning after June 15, 2004, therefore, the measure of the Company's accumulated postretirement benefit obligation and net periodic postretirement benefit cost do not reflect any amount associated with the subsidy.

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2003, that it expected to contribute \$21.2 million to its pension plans in 2004. As of June 30, 2004, \$7.8 million of contributions have been made. The Company expects to contribute an additional \$13.4 million in 2004 for a total of \$21.2 million.

Note 10. Interim Segment Information

FACTORS USED TO IDENTIFY REPORTABLE SEGMENTS

The Company's operations are classified into three principal reportable

## Edgar Filing: WAUSAU MOSINEE PAPER CORP - Form 10-Q

segments: the Printing & Writing Group, the Specialty Paper Group, and the Towel & Tissue Group, each providing different products. Separate management of each segment is required because each business unit is subject to different marketing, production, and technology strategies.

8

### PRODUCTS FROM WHICH REVENUE IS DERIVED

The Printing & Writing Group produces a broad line of premium printing and writing grades at manufacturing facilities in Brokaw, Wisconsin and

Groveton, New Hampshire. The Printing & Writing Group also includes converting facilities which produce wax-laminated roll wrap and related specialty finishing and packaging products, and a converting facility which converts printing and writing grades. The Specialty Paper Group produces specialty papers at its manufacturing facilities in Rhinelander, Wisconsin; Mosinee, Wisconsin; and Jay, Maine. The Towel & Tissue Group produces a complete line of towel and tissue products that are marketed along with soap and dispensing systems for the "away-from-home" market. The Towel & Tissue Group operates a paper mill in Middletown, Ohio, and a converting facility in Harrodsburg, Kentucky.

### RECONCILIATIONS

The following are reconciliations to corresponding totals in the accompanying consolidated financial statements:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net sales external customers				
Printing & Writing	\$101,181	\$ 99,458	\$201,282	\$197,835
Specialty Paper	105,771	89,701	206,702	182,159
Towel & Tissue	57,157	53,674	107,940	102,665
	\$264,109	\$242,833	\$515,924	\$482,659
Operating profit				
Printing & Writing	\$ 1,971	\$ 2,704	\$ 4,522	\$ 4,190
Specialty Paper	3,375	64	6,826	1,576
Towel & Tissue	8,131	8,372	13,432	12,403
Total reportable segment operating profit	13,477	11,140	24,780	18,169
Corporate & eliminations	(5,095)	(3,463)	(8,584)	(5,857)
Interest expense	(2,550)	(2,570)	(5,077)	(5,071)
Other income (expense), net	98	15	292	1
Earnings before income taxes	\$ 5,930	\$ 5,122	\$ 11,411	\$ 7,242

(Dollars in thousands)	JUNE 30, 2004	December 31, 2003
Segment Assets		
Printing & Writing	\$282,836	\$283,711
Specialty Paper	330,944	334,079
Towel & Tissue	163,514	165,199
Corporate & Unallocated*	98,225	75,111
	\$875,519	\$858,100